

**DAVIDE CAMPARI – MILANO SPA***CONSUMER PRODUCTS- BEVERAGE*

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**COMPANY REPORT**

23 MAY 2017

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**Let's Spritz!***Potential market shares increase due to favourable trends and Global priorities growth*

- We recommend to **buy Davide Campari – Milano S.p.A** given our FY18 target price of €7.20 per share, which corresponds to a total shareholder returns of 15% compared to the market price, as of May 23<sup>rd</sup>.
- Positive trends, such as **Premiumization** and **Millennials preference shift**, together with an overall stronger economy represent Spirits Consumption's main drivers. We believe that Campari will be able to take advantage of this favourable pace by increasing its market shares.
- We expect **SKYY Vodka** to recover in two years in core US market. **Aperol** will continue to show a good performance in core market of Italy with **3.3% 10Y CARG**. The same for Campari brand which will continue to grow at **2.9% CARG** in core market of Italy. **Grand Marnier**, one of the latest brands acquired by Campari, will grow in core market of US at **3.6% 10Y CARG**.
- **What about Asia?** As of now, a small portion of Campari revenues comes from Asia. We expect the company to **intensify its activities** in these markets by strengthening its distribution channel.

**Company description**

Davide Campari-Milano S.p.A. produces and sells a wide range of alcoholic and non-alcoholic beverage. The group most famous brands are Aperol, Campari, SKYY Vodka, Wild Turkey and Grand Marnier. Its core business is Spirit and its operations are classified into four geographical areas: The Americas, Southern Europe, Middle East and Africa and Northern, Central and Eastern Europe. Campari's headquarter is located in Milan, Italy.

**Recommendation: BUY****Price Target FY18: 7.20€****Price (as of 23-May-18) 6.29€**

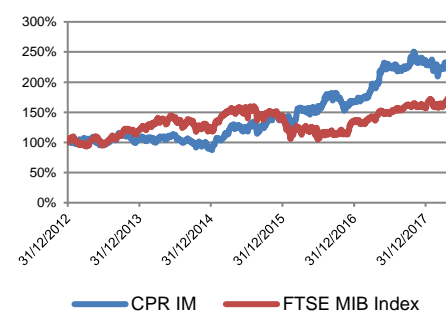
Bloomberg: CPR IM Equity

52-week range (€) 5.57-6.95

Market Cap (€m) 7,312.3

Outstanding Shares (m) 1,161.6

Source: Bloomberg



Source: Bloomberg

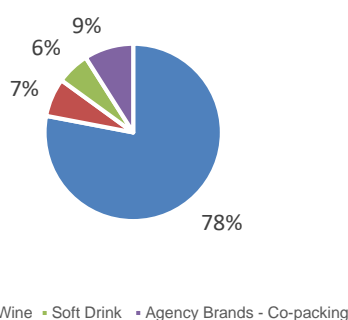
(Values in € millions)	2017	2018E	2019E
Revenues	1,816	1,860	1,924
EBITDA	438	397	413
EBIT	381	349	362
Net profit	408	253	263
EV/Sales			
P/E	20.7x	33x	38x
EV/EBITDA	18,6x	20,5x	19,7x
ROIC	13%	9%	9%
FCF	353	282	228
Net Dividends			

Source: Bloomberg and Analyst Estimation

THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY [INSERT STUDENT'S NAME], A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.  
(PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

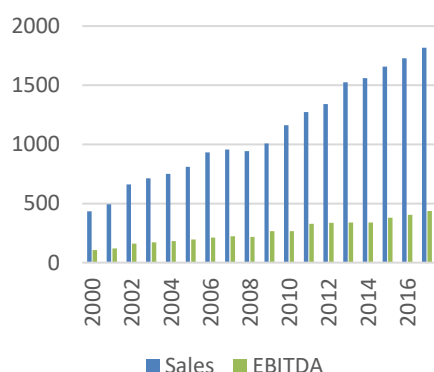
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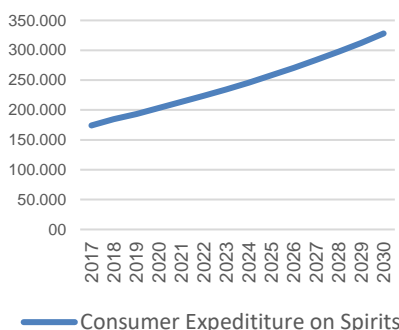
**Exhibit 1: Campari Revenues per Business as of FY17**

Source: Company report & Analyst Estimation



**Exhibit 2: Revenue and EBITDA FY00-FY17 € mn**

Source: Company report



**Exhibit 3: Consumer Expenditure on Spirits USD mn**

Source: Passport

## Executive summary

Davide Campari Milano S.p.A has a well-defined growth strategy: it aims to combine organic growth with external growth. Since 1995, it realized 27 acquisitions for a total value of more than €3 billion. Spirits represent its core business (**exhibit 1**). The company is focusing on strengthening its high-margin Spirits business while divesting from low-margin non-core business. Finally, strategic acquisitions together with strong brand building and effective product supply chain led Campari's revenue and EBITDA margins to increase over time (**exhibit 2**).

In summary, Campari's future performance will be driven by two factors:

**Key markets economy and trends:** United States, Brazil, Argentina, Canada, Italy, Germany and Australia represent 72% of the company's total sales. However, the Campari relies primarily on Italy and United States which accounted respectively for 22% and 25.5% of total revenues, in 2017. A stronger economy together with positive trends will positively impact the overall Spirits consumption, and therefore Campari's profitability.

**Key products performance:** Campari's market shares and therefore its revenues are strongly depended on specific brands' performance. We identified some: Aperol, Campari, SKYY Vodka, Grand Marnier and Wild Turkey among others. Aperol continues to show a double-digit organic growth, +19%<sup>1</sup>. The same for Campari brand which reported +9.8% organic growth in revenue. On the other hand, SKYY Vodka is not performing well (-3.5%), showing a negative result in its core market of USA, which represents 73% of the brand's total revenue.

The global Spirits Consumption (including fast-growing markets) is expected to grow at 5% CARG for the next 13 years ahead (**exhibit 3**). A positive economic prospect and disposable income rising level together with favorable trends will represent the main drivers. According with our assumptions, Campari will be able to take advantages of that by increasing its market shares through digital marketing campaigns, distribution channel's strengthening and innovation in flavors.

Finally, in order to calculate Campari's target price, a Discount Cash Flow model has been used. It led to a target price of €7.20, representing a total shareholder return of 14.99%.

<sup>1</sup> Sales at constant FX



## Company overview

### Company description

Campari was born in 1860 in Milan, when the Italian Gaspare Campari created the first red aperitif with medium alcohol content. Then, his son and successor, Davide Campari developed an aggressive expansion that together with a winning marketing strategy led the company to operate in more than 80 countries, already by the '60s. During the '90s, several mergers and acquisitions characterized the global alcoholic beverage industry from where huge global corporations were born. At that point, Campari decided to carry out its organic growth with an external growth: the group was able to enrich its single-brand portfolio with well-known brands.

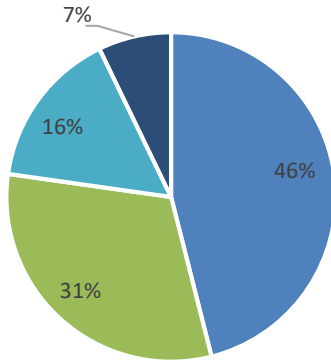
Nowadays, Campari is still headquartered in Milan and is the sixth-largest player in the Global Premium Spirits Industry.

Spirit is an alcoholic beverage manufactured by a distillation of a mixture made by alcohol fermentation. The global Spirits industry is characterized by a wide range of product which includes vodka, gin, tequila, rum, whisky, brandy, cane, natural spirits and flavoured spirits.

Campari's portfolio encompasses more than 50 premium and super-premium brands, distributed in more than 190 countries through its own distribution channel and local distributors (**exhibit 4**). Its products are divided into three main segments: spirits, wine, RTDs and soft drink; however, Spirits are its core business. The most famous brands are *Aperol*, *Grand Marnier*, *Campari*, *Cinzano*, *SKYY Vodka* and *Wild Turkey*, among others (**exhibit 5**).

The company has a current market capitalization of €7.3 billion which is very low compared with the other big Spirits producers.

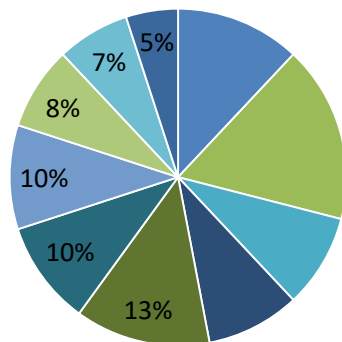
Nowadays, Campari's CEO Bob Kunze-Concewitz is strongly determined to increase the core high-margins Spirits business by divesting non-core businesses. On 31 January 2017, Campari sold its Lapostolle wine business in Chile, while on July 2017, the group closed the deal to sell the French winery Château de Sancerre. With these transactions, the company confirms its exit from Wine Business, while at same time strengthening on the Spirits Business.



■ Americas ■ SEMEA ■ NCEE ■ Asia Pacific

**Exhibit 4: Revenue split per Segment as of FY 2017**

Source: Company report



■ Agency Brand ■ Aperol  
■ Campari ■ SKYY  
■ Wild Turkey ■ Grand Marnier

**Exhibit 5: Revenue split per Brand as of FY 2017**

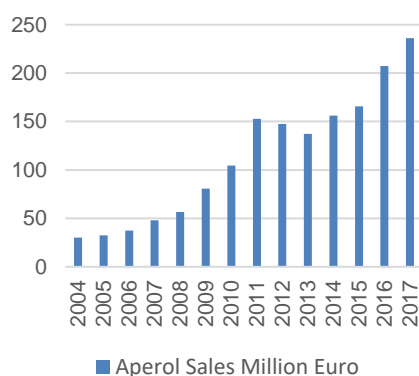
Source: Company report

## Successful acquisition strategy



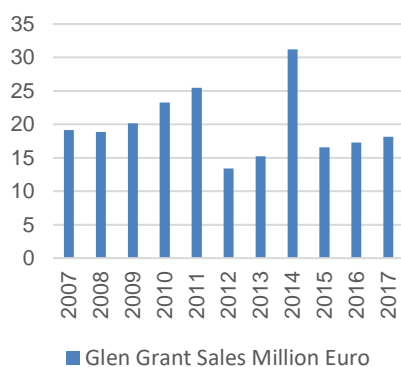
**Exhibit 6: SKYY Vodka Sales Since the Acquisition**

Source: Company report



**Exhibit 7: Aperol Sales Since the Acquisition**

Source: Company report



**Exhibit 8: Glen Grant Sales since the Acquisition**

Source: Company report

Over the past few years, Campari has incredibly enlarged its portfolio thanks to an aggressive expansion politics. From being an Italian Aperitif company, it became a highly diversified spirits producer and seller. The company has been able to achieve this great result mostly thanks to strategic acquisitions: it focused on premium brands which were highly regarded and well-placed in term of geography.

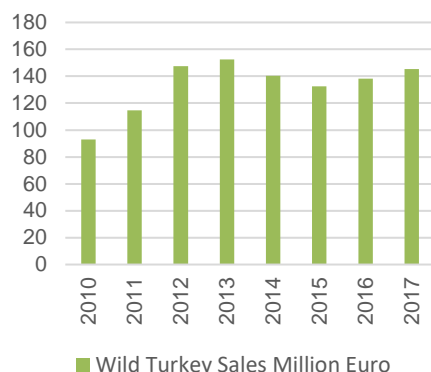
**SKYY vodka** was one of its first acquisitions. Campari acquired the brand after numerous transactions. In 1998, it acquired 9% and later, in 2001, it completed the transaction by acquiring another 50% for an amount of US\$ 207.5 million. The year following the acquisition, SKYY Vodka registered an EBITDA of €23 million and an Enterprise Value of €248million. This led to an EV/EBITDA of 10.8x and a return on the acquisition of 9.3%<sup>2</sup>. In 2017, SKYY Vodka registered total revenues of €182 with a 15YCARG of 3.4%**(exhibit 6)**. In order to estimate the brand's current value, we assumed that all Campari's brands contribute equally to its EBITDA; from that, we obtain SKYY Vodka's EBITDA of €43, in 2017. Then, multiplying it by Campari 18.6x EV/EBITDA, we obtain a brand value of €800 million.

In 2003, Campari announced the acquisition of the Italian company Barbero S.p.A. 1891, owner of the aperitif **Aperol**, for €222 million. Aperol brand saw an extraordinary acceleration in revenues **(exhibit 7)**. Making the same previous assumption, Aperol registered an EBITDA of €56 million which leads to a hypothetical brand value of €1,041 million.

Later in 2006, Campari acquired **Glen Grant** from Pernod Ricard. The company paid €130 million, including € 115 Glen Grant (9.2x brand direct contribution) and € 15 million for Old Smuggler and Breamar; the acquisition has been paid in cash. According with our estimation, we obtained a brand value of €81 million. The brand showed fluctuating revenues over the past few years **(exhibit 8)**.

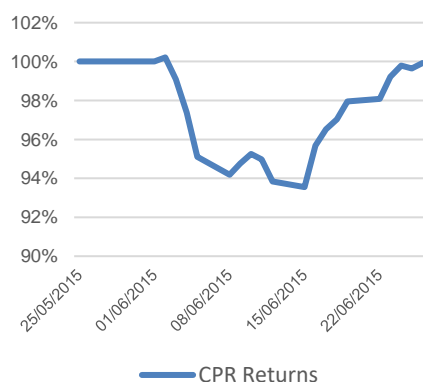
In April 2009, the company acquired **Wild Turkey Whiskey**. Campari agreed to buy the well-known Bourbon from Pernod Ricard for US\$ 575 million, corresponding at 12x the expected EBITDA in the first 12 months following the deal's closing. The transaction has been financed by credit facilities. Wild Turkey became one of the most strategic products in the group's portfolio; in fact, with its acquisition, Campari entered the ambitious United States

<sup>2</sup> Source: Company Financial Report FY12



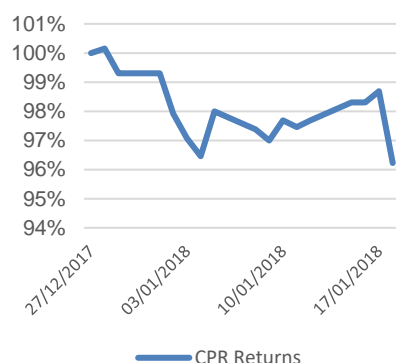
**Exhibit 9: Wild Turkey Sales Since the Acquisition**

Source: Company report



**Exhibit 10: Market Reaction to Enrico Serafino wine sales**

Source: Bloomberg



**Exhibit 11: Market Reaction to Lapostolle Wines Sales**

Source: Bloomberg

bourbon whiskey market (**exhibit 9**). With the precedent assumptions, we obtain a hypothetical brand value of €649 million, in line with the acquisition price.

During 2016 and 2017, the company added other well-known brands to its portfolio: **Grand Marnier** and **Bulldog London Dry Gin**.

It acquired Grand Marnier for € 490 million, with a premium of 60% and an EBITDA multiple of 21.3x. Grand Marnier registered €127 million of sales in 2017. Considering EBITDA constant, Grand Marnier value would be €567 million. Finally, Bulldog London Dry Gin was acquired for €58.4 million with an EBITDA multiple of 13.6x. In 2017, it registered €18 million revenues. This leads to a brand value of €81 million. On January 2018, Campari closed the agreement to buy Bisquit Cognac from South African group Distell for a cash outlay of €51.9 million. The Brand is expected to register pro forma sales of €9.0 million in 2018.

The accelerated revenues growth and the estimated brand enterprise value confirm the fact that Campari increased its shareholder value. In addition, acquisitions allowed the company to rely less on its native country. Lastly, it is important to highlight that we made strong assumptions and we did not take in consideration material synergies that can increase substantially the brand value.

Finally, in line with the company's long-term strategy to strengthen its core-business, Campari started to divest from some non-core business.

On the 11<sup>th</sup> of June 2015, the company announced to sell Enrico Serafino wines for €6.1 million; we can notice a slight negative market response which led to a decrease in market cap from €4,032 million to €3,992 million (**exhibit 10**). On 25<sup>th</sup> of November 2015, it announced to sell Sella & Mosca and Teruzzi & Puthod wines for €62 million. Campari bought the Brand in 2012 for € 68.2 million. Still, in 2016, the company divested Lapostolle wines in Chile for €30 million; in that case, there is not a clear reaction from the market. Finally, on the 7<sup>th</sup> of January 2018, it sold the Italian carbonate Lemonsoda to the Danish-based beer manufacturer Royal Unibrew A/S. The total net proceed was €80 million. Lemonsoda was the first Campari's acquisition together with Cynar and Crodino in 1995. The market reaction was negative (**exhibit 11**).

Despite market's negative reactions, we believe that the disposals of non-core business is necessary to concentrate all resources and effort on the high-margin Spirits business.



## Campari Distribution Network

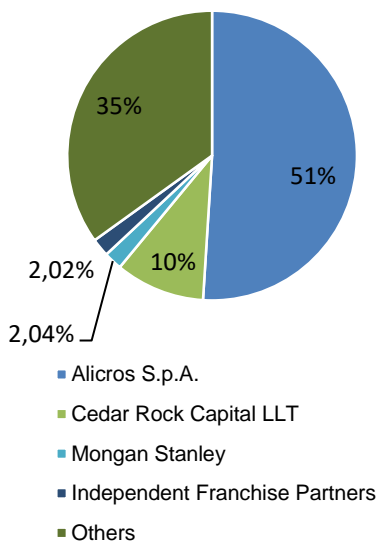
The success of a spirit producer is strongly correlated with the effectiveness of its distribution network. In fact, a broader and more effective distribution channel will allow the company to quickly respond to increase in consumers' demand. Campari has its own distribution channels in 20 countries, including key markets such as Italy, Germany, United States, Argentina, Brazil, Canada and Australia. Since 2004, it dramatically increased its route-to-markets from 5 to 20 third-party distribution markets.

Moreover, the company implanted bottling activities in the core US and Australia markets and globally increased its manufacturing plants from 8 in 2004 to 18 today.

In this way, we expect that the company will be able to reach different markets and satisfies consumers' needs according with country's specific spirits demand. Over the past years, the group was able to strengthen its distribution channel by acquiring strategic brand: an example is the recent agreement to acquire Biscuit Cognac which aims to strengthen its route-to-market primarily in the recent established South African Spirits Market.

An element which deserves investors' attention is the recent implementation of Campari's own distribution channel in the fast-growing Chinese market.

**Campari in-market companies in 2018: Italy, Germany, USA, Brazil, Switzerland, Austria, China, Argentina, Mexico, Ukraine, Belgium, Luxembourg, Australia, Russia, Jamaica, UK, Spain, Canada Peru, South Africa.**



## Shareholders structure

Campari's shares have been listed on the Italian Stock Market (FTSE MIB index) since July 6<sup>th</sup> 2001. The IPO involved 142.9 million shares. Today, the major shareholder remains the Garavoglia's family through Alicros S.p.A., holding 51% of outstanding shares, while the remaining 49% is floating capital held by other investors.

The second biggest investor is Andrew Brown who holds 10% of shares through Cedar Rock Capital LLT. There are no other investors with more than 3%: Morgan Stanley Investment Management Ltd own 2% while Independent Franchise Partners LLP owns 2% (**exhibit 12**). The company governance did not implement huge changes since the IPO in 2001, leaving its ownership unvaried.

In 2007, Campari nominated Bob Kunze-Concewitz as Chief Executive Officer; he entered the company in 2005 as Group Marketing Officer. On the other hand, Luca Garavoglia, Davide's son, is the actual Chairman and he owns 26% of Campari's shares.

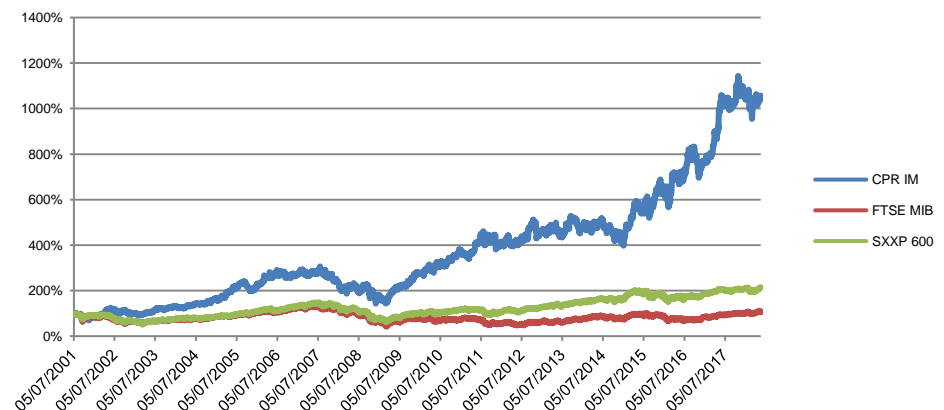
**Exhibit 12: Campari Shareholder Structure FY17**

Source: Campari Site

We can define Campari as an “advanced” family-run business: even if Garavoglia has the majority of shares, the company shows features of normal public companies. In fact, considering Campari’s notoriety and complexity, most of the decisions are not taken just by the owner.

For that reason, we do not identify common issues that usually distinguish family-run companies. By contrast, we retain that Davide Campari’s successors have been able to create value by adapting company’s historical concept to a modern environment.

From the date of the initial public offer (IPO) to May 2018 Campari has delivered consistent high total gross returns compared with the two indexes FTSE MIB and SXXE 600. The company delivered an annual compounded total return of 21.6% until May 2018. If we consider a beta of 0.92 and actual risk-free rate (10Y German Treasury Bond) of 0.53%, we obtain an opportunity cost of equity of roughly 5.2%. The value is much lower compared with the annualized total returns that the company delivered to its shareholders.



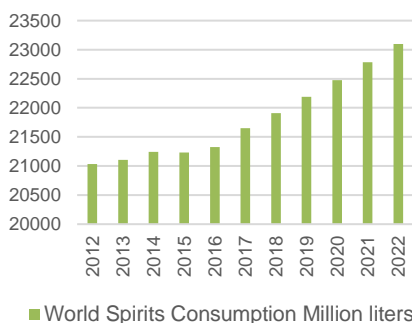
**Exhibit 13: Campari Total Gross Return Since the IPO**

Source: Bloomberg

## The Sector

Campari operates in 190 countries and classifies its business operations into four geographic areas: The Americas; Souther Europe, Middle East and Africa; Northern, Central and Eastern Europe; and Asia Pacific. We identified six key markets (US, Brazil, Argentina, Canda, Italy, Germany and Austria) which represented 72% of Campari’s total revenue, in 2017.

United States is Campari’s largest market (26% of total revenues) and, within the six countries analysed, it has the biggest Spirits market (2 billion litres, in 2017). Italy is Campari’s home and represents its second largest market in term of revenue (22%). The overall Spirits Industry is expected to grow and reach 23 billion litres by 2022 (exhibit 14).



**Exhibit 14: Forecast World Spirits Volume**

Source: Passport



## Americas

### United States

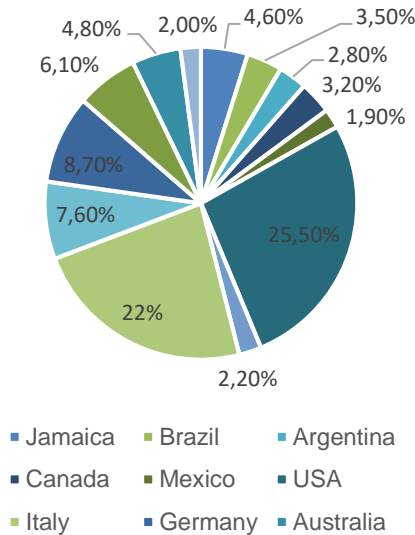
United States represents Campari's biggest market, accounting for 26% of total group's Revenues (**exhibit 15**). The acquisition of SKYY Vodka, Wild Turkey and Grand Marnier helped the company to penetrate the highly competitive US Spirits market.

United States economy still represents about 20% of the total global output. In 2008, different factors contributed to shake the American economy, including excessive risk taken from financial institution, mortgage lending and high consumer indebtedness, among others. During 2009, the housing market and huge players in the financial industry collapsed, generating a worldwide crisis which today still influences the majority of the worldwide economies. The American economy has been recovering slowly since then, receiving additional support from unconventional monetary policies.

Today, the labour market has significantly recovered since 2009: unemployment rate decreased to 4.1%, reaching again the pre-crisis level. Moreover, fiscal stimulus such as tax cut should push the economy running at strong pace. Real GDP is expected to increase by 2.9% in 2018. Disposable income per capita is going to increase at CARG of 1.3%, during FY17-FY27.

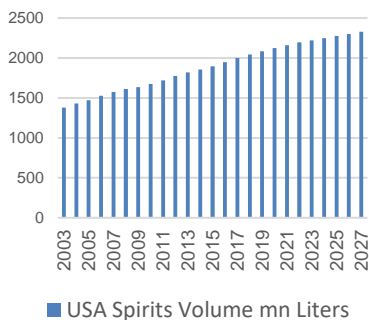
Looking at **exhibit 16**, we can notice that the overall Spirits Volume has not been affected by 2008 economic crisis. On the other hand, a consideration is necessary: the total consumption includes both cheap and expensive spirits. In fact, Spirits Industry is rare in the sense that it can benefit from both good and bad state of the economy. United States case shows that an economic downturn may result in an increase in spirits consumption, however, primarily driven by cheap brands.

In 2017, Spirits volume was up 2.6% and reached 2,000 million liters. For the following years, we still expect a steady growth (**exhibit 16**) but considering United States positive macroeconomic environment, Spirits consumption drivers will be premium and super-premium brands.



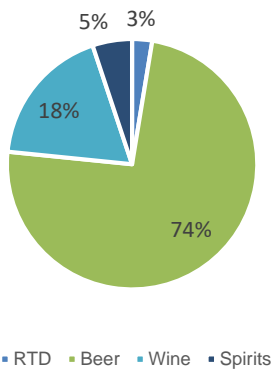
**Exhibit 15: Revenues by key Markets as of FY17**

Source: Company report

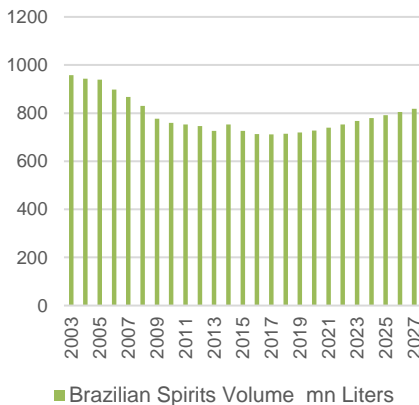


**Exhibit 16: USA Forecasted Spirits Volume**

Source: Passport and Analyst Estimation



**Exhibit 17: Brazil Alcohol Market Shares in 2017**  
Source: Passport



**Exhibit 18: Brazilian Spirits Volume Forecast**  
Source: Passport and Analyst Estimation



**Exhibit 19: Argentinian Spirits Volume Forecast**  
Source: Passport and Analyst Estimation

## Brazil

Brazilian Spirits market accounted for 3.5% of Campari total Revenue, in 2017 (**exhibit 15**). Spirits represents a small portion of the Brazilian Alcohol market, if compared to beer (**exhibit 17**). During the economic and political crises, the spirits market showed a negative CARG of 2.5%, between FY13-FY17 (**exhibit 18**). However, Brazilian economy is gradually recovering: as inflation decreases, an improvement in consumption and investment is expected together with a reduction in interest rate. Real GDP increased by just 1% in 2017 and it is expected to grow at 2.3% in 2018. Unemployment is expected to fall from 12.8% in 2017 to 11.5% in 2018. In addition, the Brazilian economy improvement is attracting many investors, both domestic and foreign. Disposable income per capita decreased by 0.49% in 2017, however it is expected to grow moderately for the next years.

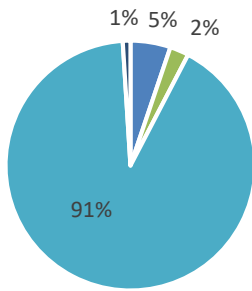
**Exhibit 18** points out that Brazilian Spirits Market is more sensible to economic downturn. In fact, Spirits volume dropped from 2008 crises and continued to decrease over time emphasized by Brazilian politic turmoil. We believe that a better macroeconomic scenario and therefore higher disposable income will lead people to be more willing to spend money on good Spirits instead of cheaper alcohol (**exhibit 18**).

## Argentina

Argentina accounted for 2.8% of Campari total Revenues in 2017 (**exhibit 15**). Over the past few years, the country's economic scenario was struggling: characterized by an exaggerate inflation which generated a reduction in GDP. The country is expected to recover slowly in the following years. In 2017, Inflation was 25.5% and it is going to fall in the long run, even if it will remain double digit at least until 2022.

Disposable income decreased but it is expected to grow at fast pace of 2.5% over the next ten years. Real GDP grew 2.9% in 2017 and it will grow 2% in 2018. Unemployment percentage is also expected to fall from 8.5% to 8.2% in 2018.

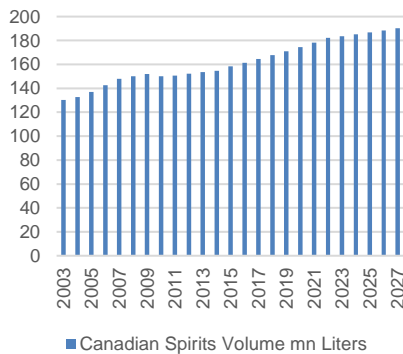
Beer accounts for 64% of total Argentinian alcohol consumption, followed by wine with 31% and Spirits with just 3%. Despite the economic scenario, Argentinian Spirits Market has grown (**exhibit 19**). Again, we believe that an increase in disposable income will lead more people to shift from cheap spirits to premium brands. We expect a 10Y CARG of 3.6%.



■ Spirits ■ Wine ■ Beer ■ RTDs

**Exhibit 20: Canadian Alcohol Market shares**

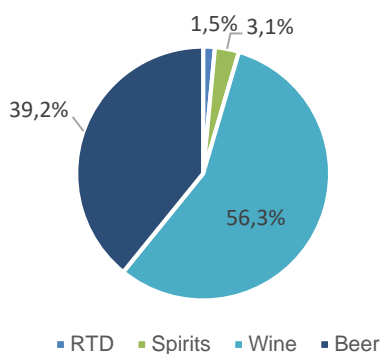
Source: Passport



■ Canadian Spirits Volume mn Liters

**Exhibit 21: Canadian Spirits Volume Forecast**

Source: Passport and Analyst Estimation



■ RTD ■ Spirits ■ Wine ■ Beer

**Exhibit 22: Italian Alcohol Market shares**

Source: Passport

## Canada

Canada accounted for 3.2% of Campari total Revenues in 2017 (**exhibit 15**). The Canadian economy will see a slow reduction but still is expected to grow at moderate pace in 2018. In particular, a rebound in energy production will strongly affect the related industries. Real GDP is expected to grow by 2.1% in 2018, compared to 3% growth registered in 2017. Inflation was 1.6% in 2017 and is expected to stabilize over 2% for the forecasted period. Disposable income per capita was €22,645 in 2017. Unemployment rate decreased and it is expected to stabilize at 6% roughly over the next five years. Beer is still the Canadians' favourite alcohol (**exhibit 20**); however, later in this section, we will focus on a worldwide trend which is leading global consumers, including Canadians, to shift from beer to spirits. From 2003, the Canadian Spirits Market experienced a slow 1.7% CARG (**exhibit 21**). We believe that a rising spending power together with a shift in consumer preferences will sustain Spirits Market growth.

## SEMEA

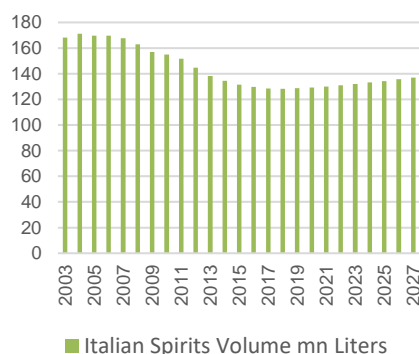
### Italy

Italy is Campari's home and its second biggest market: it accounted for 22% of the total Campari revenues, in 2017 (**exhibit 15**). The Italian economy is growing slowly with consumer spending still weak. Most of the problems come from the banking sector and limited fiscal policy. Today, the Italian disposable income per capita is still below the pre-crisis level. In 2017, it was €18,426 and it will grow at a slow annual compound rate of 0.8%. Real GDP is expected to grow 1.5%, in 2018.

Inflation was 1.2% in 2017 and is expected to rise to 2%, according with the European Central Bank's target inflation. The unemployment reached its highest value of 12.6%, in 2015. Today, it is roughly 10% and it will decrease to 9.85% by 2022. High political precariousness contributes to shake the country's stability.

Spirits have a low percentage in the overall Italian alcohol market due to the Italian tradition of producing wine (**exhibit 22**).

As we can see from **exhibit 23** Italian Spirits Volume has been particularly sensible to 2008 crises. In fact, from 2003, it registered a negative CARG of -1.9%. We forecasted a slow growth in Spirits market which reflects the Italian slow recovery.



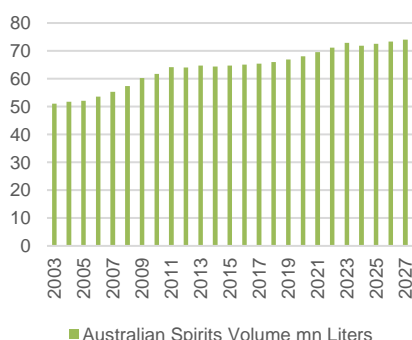
**Exhibit 23: Italian Spirits Volume Forecast**

Source: Passport and Analyst Estimation



**Exhibit 24: German Spirits Volume Forecast**

Source: Passport and Analyst Estimation



**Exhibit 25: Australian Spirits Volume Forecast**

Source: Passport and Analyst Estimation

## NCEE

### Germany

Germany accounted for 8.7% of the company's revenues, in 2017 (**exhibit 15**). The country began a strong economic recovery even if weaknesses in exports and investment still persist. During the last two years, the German Economy saw an impressive result led by a higher consumer spending.

Real GDP will increase by 2.5%, in 2018. In 2017, the country registered a disposable income per capita of €23,925 and it is expected to grow at an annual compounded rate of 0.9% over the forecasted period. Unemployment was 3.8% in 2017 and it will fall to 3.5% in 2018.

Spirits volume experienced a strong decrease since 2003 (**exhibit 24**). However, 2008 crises contributed only in part to its drop. Beer is by far the most popular alcohol in Germany (78% of total volume) and part of German tradition. Therefore, we believe that both economic crises and consumer preferences impacted Spirits Market. We forecasted a gradual improvement from 2023 thanks to disposal income increasing level and shift in preferences.

## Asia-Pacific

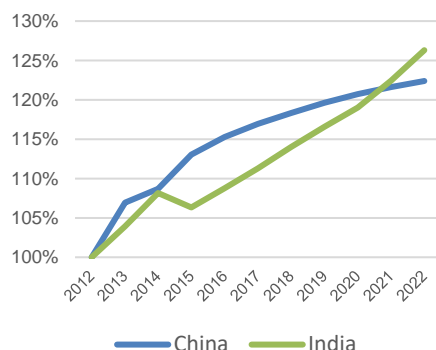
### Australia

Australia is Campari's key market in the Asia-Pacific geographic area. It accounted for 4.8% of Campari's total revenues, in 2017 (**exhibit 15**).

The overall economy is moderately growing and it is expected to accelerate in the next few years especially thanks to improvement to the labor market. During the past years, construction and mining have been the main growth drivers. Disposable income was €32,702 in 2017 and is expected to grow over 10 years at annual compounded growth rate of 0.8%.

Wine and beer are currently the most important sources of alcohol in Australia, in fact they account respectively for 21% and 68% of total alcohol; Spirits just account for 2%. We expect Spirits Market to grow at the same steady pace (1.15% FY17-FY27 CARG), incentivized by a growing economy (**exhibit 25**).

## China and India: missing future growth opportunities?



**Exhibit 26: Spirits Volume growth China and India**

Source: Passport

Asia-Pacific accounts for just 6.8% of Campari total revenue. The rise of drinking culture in China and an increase in disposable income led Chinese people to consume more spirits during the past few years (**exhibit 26**).

Today, China account for 27% of Spirits Global volume and it's expected to reach 6 billion liters by 2022. However, Baijiu, the Chinese spirit, still remains the favorite one. On the other hand, brandy and cognac increased by 4% in volume, in 2017.

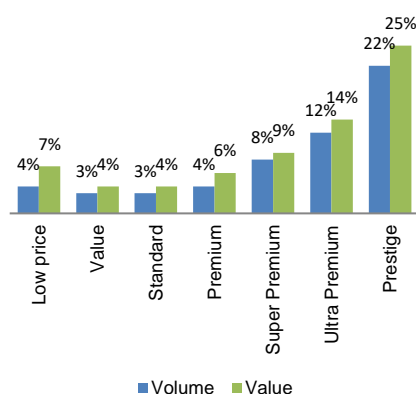
India accounts for 12% of total Spirits global volume. The market is expected to grow at 2.6% CARG (**exhibit 26**) and reach 3 billion liters by 2022. Whiskies are by far the most preferred, registering 1.7 billion liters, in 2017. We will see later in this section that companies such as Diageo and Pernod Ricard rely much more on these markets than Campari.

The lack of presence in such fast-growing and lucrative economies may be a limit for Campari future growth opportunities. In addition, it can put the company in a disadvantageous position against its competitors which are already well established in these markets. However, Campari is already strengthening its geographic presence across Chinese regions: in 2017, the company entered an exclusive distribution agreement with the Chinese subsidiary of French Cognac producer Camus.

## Global Spirits Market Trends

### Premiumization

Campari offers a wide range of products of which the majority is classified as premium and super premium. The categorization is based on the spirits' Retail Sales Price. **Exhibit 27** represents IWSR's classification of premium and super premium Spirit Aperitif, Whiskey and Liqueur in United States and Italy. We will give some examples of Campari premiums brads: Russell's Reserve 10-Year-old Bourbon has an average price from \$27-\$65. While Grand Marnier liqueur is commercialized on average at \$40.



**Exhibit 28: 10Y CARD in different Spirits Categories**

Source: IWSR

	Premium from	Premium to	Super Premium	Super to
<b>USA (USD)</b>				
Liqueurs (75cl)	20	34.99	35	74.99
Whiskey (75 cl)	17.50	29.99	30	74.99
<b>Italy (EUR)</b>				
Spiritis (70 cl)	15	29.99	30	-
Whiskey (75 cl)	15	24.99	25	74.99

**Exhibit 27: Price categorization in USA and Italy**

Source: IWSR



**Exhibit 29: USA Growth in International Premium Brand Companies and Other International Companies**  
Source: IWSR

The term Premiumization was born in the 90s to indicate a new trend in the alcohol and beverage market: most of the people started to consume top alcohol and beverages because they represented their life style and leisure time. Considering a time period of 10 years (FY06-FY16), we can notice a strong shift towards Super premium, Ultra-premium and Prestige. In particular, Prestige brand has been the category which registered a higher CARG (**exhibit 28**).

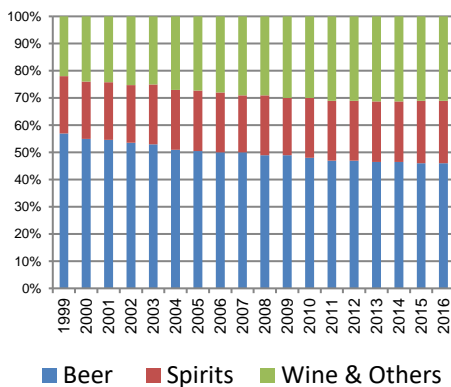
United States, which is a Campari key market, registered the highest shift from non-premium alcohol to premium (**exhibit 29**). This graph is extremely useful also to fully understand the relationship between premium consumption and downturn in the economy. In fact, as we already highlighted in the paragraph “United States”, premium companies are more sensible to economic downturn than non-premium companies.

### Millennials Preferences

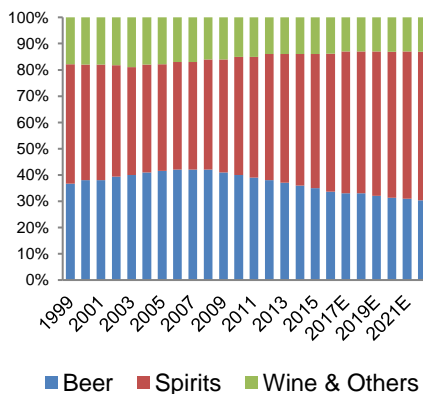
Millennials (today aged 18-34 years old) have shifted their alcohol preferences from beer to Spirits (**exhibit 30**). Compared with the previous generation, data shows that they prefer more spirits and wine than beer. As a result, beer penetration fell 1% from FY16 to FY17 in the United States Market, while both wine and spirits were unchanged according with Nielsen ratings. The change has been low but very consistent. Millennials represent a great portion of the world population, therefore, this trend is expected to strongly impact the overall global alcohol consumption (**exhibit 31**).

## Competition

The Spirits Market as whole is notably fragmented and therefore highly competitive. Product differentiation is relatively difficult. However, a certain degree of innovation is still possible by developing alternative products with a different flavour. The market is also characterized by a strong brand loyalty which in a certain way counterbalances the high rivalry. Data from a Statista survey shows that the majority of respondents selects spirits according with the Brand, the quality and their personal taste (**exhibit 32**). Customer brand loyalty decreases the likelihood of price wars. Finally, to confirm brand loyalty, it is very uncommon that spirits consumers chose a cheaper or different alternative to what they usually drink (**exhibit 33**).

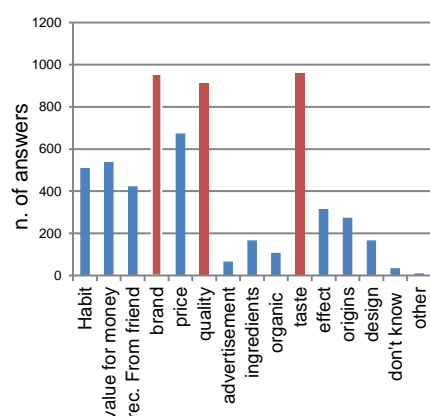


**Exhibit 30: Millennials Alcohol Consumption**  
Source: IWSR



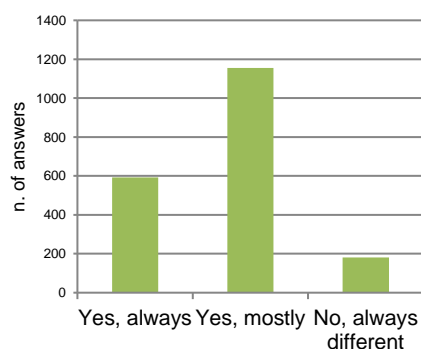
**Exhibit 31: Global Alcohol Consumption Forecast as % of Total**  
Source: IWSR





**Exhibit 32: “Based on which criteria do you usually select a Spirits?”**

Source: Statista Survey USA



**Exhibit 33: “Do you normally buy the same product?”**

Source: Statista Survey USA Alcohol 2017

Diageo	2017	E2018
Sales	14023	13881
Sales Growth	0.02%	0.0%
EBITDA	4569	4757
in %	33%	34%
ROIC	13%	-

**Exhibit 34: Diageo € mn**

Source: Company Report & Bloomberg

Many of Spirits Producers are also active in other markets such as beers or wines. The biggest players have also a great degree of vertical integration, with huge investment in distillery, bottling and storage facilities. The high exit costs that would come from a divestment in one of those assets are another element which tend to notably increase the competition in the Spirits Markets. The most important buyers in the Spirits industry are hypermarkets and supermarkets. Other potential buyers may include on-trade business, independent retailers and specialist retailers.

The majority of the biggest players in the Spirits Industry have a significant presence in fast growing markets: China and India.

## Comparable

We select four Campari's direct competitors (Diageo, Pernod Ricard, Remy Cointreau, and Brown-Forman) which will be quickly analysed.

**Diageo** – It is a British global producer and distributor of premium spirits, beer and wine. The company operates in 180 countries, dividing its business operations into five geographical segments: North America; Africa, Europe, Russia and Turkey; Asia Pacific; and Latin America and Caribbean. The company is highly vertical integrated: its operations include producing, distilling, brewing, bottling, packaging and distributing. The company's most famous brands are Vodka Smirnoff, Guinness, Johnnie Walker, Baileys among others. Therefore, in term of products, Diageo is similar to Campari. However, Diageo is much bigger (**exhibit 34**). Currently, Diageo represents 25% of global Spirits volume. The company is currently trading with a P/E of 21x with a Market Capitalization of 66.8 GBP billion. Finally, it is extremely exposed to emerging markets: Asia-Pacific accounted for 40% of its 2017 total Revenues.

**Pernod Ricard** – Pernod Ricard SA is a French spirits producer and one of the leading companies in the Spirits Global market. The group has a decentralized management structure and its manufacturing base has 101 production sites in 24 countries worldwide. Pernod Ricard SA has two types of subsidiaries which are Brand Companies and Market Companies. Brand companies are autonomous and can directly take decision about brand strategy and manufacturing. Today, the group has 85 direct affiliates worldwide. The group most famous brands are Chivas Regal, Royal Salute, Havana Club, Absolut Vodka, Martell and Malibu, among others.

Penod Ricard	2017	E2018
Sales	9010	8989
Sales Growth	4%	-0,2%
EBITDA	2524	2593
in %	28%	29%
ROIC	7%	-

**Exhibit 35: Pernod Ricard € mn**

Source: Company Report & Bloomberg

Remy	2017	E2018
Sales	1095	1130
Sales Growth	4%	3%
EBITDA	242	259
in %	22%	23%
ROIC	8.4%	-

**Exhibit 36: Remy Cointreau € mn**

Source: Company Report & Bloomberg

Brown Forman	2017	E2018
Sales	2742	2644
Sales Growth	-2%	-4%
EBITDA	959	914
in %	35%	35%
ROIC	21%	-

**Exhibit 37: Brown Forman € mn**

Source: Company Report & Bloomberg

In 2017, Americas accounted for 30% of total revenues while Asia for 40%. The company has a current market capitalization of €37 billion and a P/E of 22x. (**exhibit 35**)

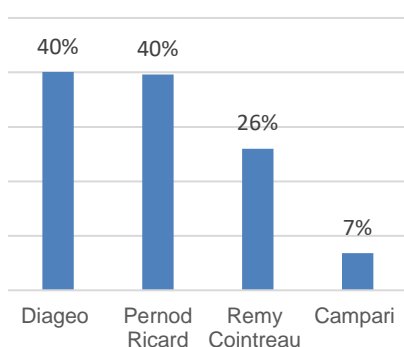
**Remy Cointreau** – It is a French manufacturer and distributor of spirits and wine (**exhibit 36**). Its key brands are Remy Martin, Louis XIII, Cointreau, and St. Remy among others. It has its own distribution network in Asia, in US and in some European Countries and it controls the 85%. Especially thanks to its strong distribution channel the company is able to implement a pricing strategy which is in line with its super-premium brands positioning. In fact, compared with Campari, Remy produces mostly *exceptional Spirits* (>USD50): they are expected to account for 60-65% of the company's total revenues by 2019/2020. Remy divides its business operations into three main geographic areas: Americas; Europe, the Middle East, Africa (EMEA) and Asia Pacific. Its market capitalization is €6,182 million; the company's P/E is 41x. Remy has always trade at premium compared with the beverage sector which has a P/E of 20x. This huge gap may come from a slight difference between Remy's portfolio of mostly exclusive brands and the other company's portfolio of less expensive spirits. In addition, China accounted for the 12% of total sale, therefore we believe that the stock price also reflects this higher growth opportunities exposure.

**Brown Forman** - Moving from European to north-American competition, we identified another comparable: Brown-Forman (**exhibit 37**). It is one of the biggest American-owned spirits producer with a global approach. US market still represents Brown-Forman' primary market. However, over the past years, Brown has strongly increase its international presence: today, the company operates in 160 countries over the world. Brown's key brands are Old Forester Bourbon Whisky, Jack Daniel's, Woodford Reserve, Finlandia, Pepe Lopez, among others. Unlike the other companies analysed above, Brown-Forman does not have a strong distribution channel, since the company is extremely dependent on a single manufacturing facility to produce and store the products. It currently trades with a high P/E of 35.8x and a market capitalization of USD28 billion.

Campari	2017	E2018
Sales	1,816	1,860
Sales Growth	5%	2.4%
EBITDA	438	397
in %	24%	21%
ROIC	13.2%	8.6%

**Exhibit 38: Campari € mn**

Source: Company Report & Analyst Estimation

**Exhibit 39: Percentage of Revenues from Asia-Pacific Area as of FY17**

Source: Company Report

### Trading comparable valuation

Comparable valuation methodology is frequently used and is based on the idea that companies having the same structure and operating in the same business sector should be equally evaluated.

However, before showing our findings, it is important to highlight some key points. First of all, Campari Group has a much smaller size in term of revenues and market capitalization compared to its direct peers (**exhibit 38**). Second, Diageo, Pernod Ricard and Remy Cointreau have a bigger exposure to fast-growing market than Campari (**exhibit 39**). That leads these companies to have higher growth expectation and therefore higher multiples. EV/EBITDA is in line with the company actual price and a bit lower than our target price. On the other hand, EV/sales ratio leads to a very high target price.

	2018E EV/Sales	2019E EV/Sales	2018E EV/EBITDA	2019E EV/EBITDA
Campari	4.4x	4.2x	18.6x	20.5x
Diageo (GBP)	6.3x	6.3x	19.4x	18.2x
Brown Forman (USD)	10.1x	9.2x	28.8x	26.7x
Pernod Ricard	5.1x	5.1x	18.0x	17.6x
Remy Cointreau	6.0x	5.8x	27.2x	25.4x
Median	6.2x	6.1x	23.3x	21.8x
Implied price	8.9x	8.8x	6.6x	6.4x

**Exhibit 40: Trading multiples of Competitors**

Source: Bloomberg and Analyst Estimation

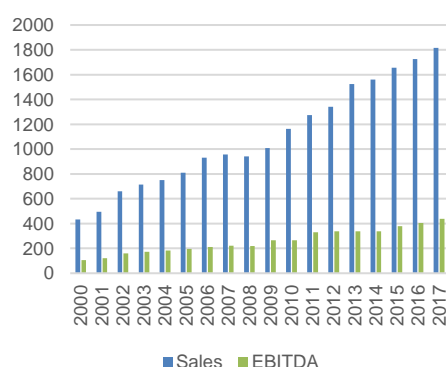
## Financial Projections

### Campari Historical Financial Performance

Campari experienced a notable growth during the past few years. Again, favourable trends in the Spirits market and well-timed strategic acquisitions contributed to its strong organic and external sales growth.

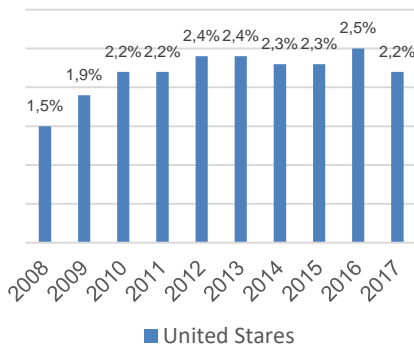
Company's revenues grew by 5% in 2017 (€1,816 million against € 1,727 million) (**exhibit 41**). Its organic sales growth was of 6.3% in 2017, being negatively affected by Forex -0.8% and Perimeter -0.4%<sup>3</sup>.

The book value of total assets decreased of 3% in 2017, accounting €4,419 million. By contrast the book value of equity increased by 2% in 2017, reaching an amount of € 1,942 million.

**Exhibit 41: Campari Historical Performance € mn**

Source: Company Report

<sup>3</sup> Of which Grand Marnier acquisition, disposals of wine businesses and Carolans



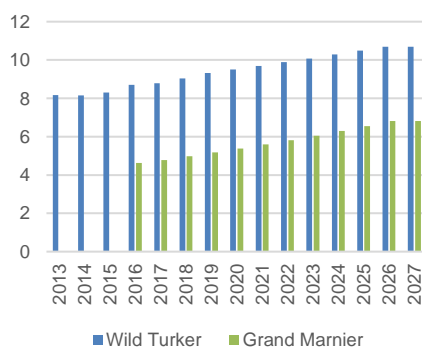
**Exhibit 42: Campari Historical Spirits Volume Market Shares USA**

Source: Passport



**Exhibit 43: SKYY Vodka Volume mn L**

Source: Passport & Analyst Estimation



**Exhibit 44: Wild Turkey and Grand Marnier Volume mn L**

Source: Passport & Analyst Estimation

## Valuation

In order to evaluate the company, we used the Discount Cash Flow (DCF) model and the weighted average cost of capital has been calculated.

## Microeconomic Driver

### Sales by Geography

The estimation of revenues is a crucial element for the precision and accuracy of our model. In order to clearly understand every key driver, we used a top-down approach.

First, in the “Sector” section, we estimated spirits volume in each key market. Then, we evaluated the performance of each key market’s leading brands and finally we forecasted Campari’s market shares.

**United States** – Campari’s market shares increased slowly over the past few years, starting from 1.5% in FY08 and reaching 2.2% in FY17 (**exhibit 42**).

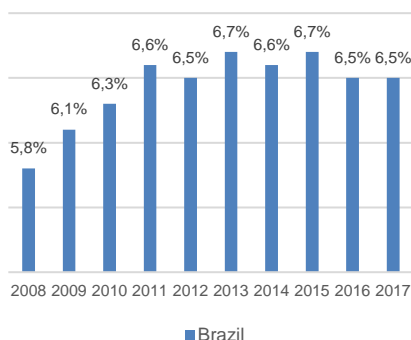
In 2017, SKYY Vodka, Wild Turkey and Grand Marnier accounted for 86% of US total volume, with SKYY Vodka accounting for 56%.

**Exhibit 43** shows how SKYY Vodka volume decreased over time. Lack of new infusions<sup>4</sup> and ineffective marketing campaigns contribute to the SKYY Vodka drop. Therefore, we expect Campari to increase consumer interests towards the brand through innovation and new flavours development.

We estimated a very positive performance for both Wild Turkey and Grand Marnier (**exhibit 44**). Campari Wild Turkey marketing campaign sees the famous actor Matthew McConaughey launching the brand live, via Facebook. The campaign has been very successful with over 107 million reactions in the first two day from the launch.

Finally, Grand Marnier is one of the last brand bought by Campari. It was already well established in the US core market. In early march 2018, Campari launched “Live Grand” campaign in NY. The event was attended by over 300 guests and celebrities and reached 20 million social media impressions. In addition, Grand Marnier different flavours such as orange-flavoured liqueur is an attractive alternative for younger consumers. **Exhibit 45** shows our final result.

<sup>4</sup> Source: Campari Investor Presentation 2017



**Exhibit 46: Campari Historical Spirits Volume Market Shares Brazil**

Source: Passport

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	2.2%	2.2%	2.2%	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%	2.5%	2.5%
Revenues € mn	463	484	507	536	565	596	625	656	689	723	747

**Exhibit 45: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation

**Brazil-** Campari market shares increased from 5.8% in FY08 to 6.5% in FY17 (**exhibit 46**). According with our estimation, brands such as Dreher, Campari and SKYY Vodka accounted for 76% of the total spirit volume. In 2018, the group will restructure its local operations in Brazil through the shutdown of a facility in order to achieve higher operational efficiency; we believe, it will take some time before seeing improvements.

Despite the macroeconomic scenario, Dreher volume remained almost stable while Campari registered very positive growth, in 2017. SKYY Vodka volume continues to decrease.

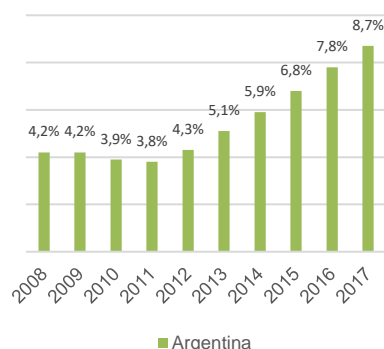
We expect Campari brand to continue his positive trend (1.5% CARG FY17-FY27) mostly driven by consumer personal taste. SKYY Vodka recovery will be gradual, driven by new infusions development.

Dreher Brazilian brandy, which represents 61% of Campari Spirits volume in Brazil, will not experience any significant growth for the next years (0,9 % CARG FY17-FY27): we forecasted a very slow growth, after a period of stagnation. **Exhibit 47** shows our final result.

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	6.5%	6.5%	6.5%	6.5%	6.6%	6.7%	6.8%	6.9%	7.0%	7.2%	7.2%
Revenues € mn	64	66	71	77	81	85	89	94	100	105	110

**Exhibit 47: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation



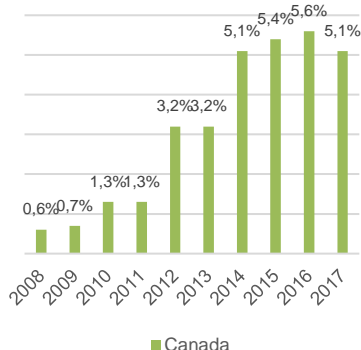
**Exhibit 48: Campari Historical Spirits Volume Market Shares Argentina**

Source: Passport

**Argentina-** Campari market shares notably increased over the past few years (**exhibit 48**). Campari brand and SKYY Vodka which represent 74% of the company's total volume in Argentina showed impressive numbers in FY17. Campari brand volume growth (12% CARG FY13-FY17) was supported by a strong marketing campaign and a favourable trend in consumers preferences. SKYY Vodka growth was led by similar drivers (13% CARG FY13-FY14): the multi-years marketing campaign implemented by Campari and aimed to attract Millennials was able to set the brand as an icon between youngsters<sup>5</sup>.

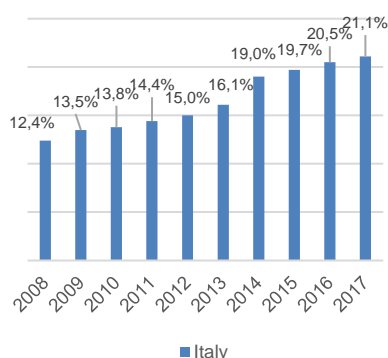
<sup>5</sup> Source: Campari Investor Presentation 2017

We still expect the two brands to grow but with a more relaxed pace. This will lead Campari to notably increase its market shares in Argentina (**exhibit 49**) and achieve a 10YCARG of 3.8% in Revenues.



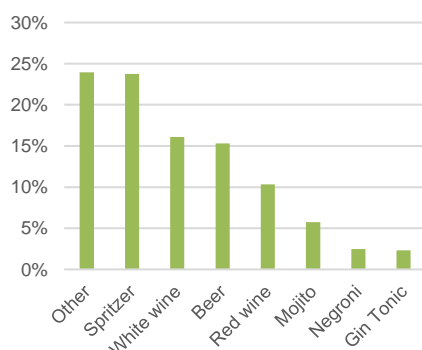
**Exhibit 50: Campari Historical Spirits Volume Market Shares Canada**

Source: Passport



**Exhibit 52: Campari Historical Spirits Volume Market Shares Italy**

Source: Passport



**Exhibit 53: "What is your favorite aperitif cocktail?" Italy**

Source: Statista

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	8.7%	9.2%	9.8%	10.4%	11.1%	11.3%	11.5%	11.8%	12%	12.2%	12.2%
Revenues € mn	51	52	54	57	59	60	64	67	71	76	79

**Exhibit 49: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation

**Canada-** In 2014, Campari market shares climbed from 3.2% to 5.1% (**exhibit 50**). That result has been possible primarily thanks to the acquisition of the national whiskey Forty Creek. The brand which accounts for 46% of Campari's total Spirits volume in Canada continues to be the main growth driver (9% YoY). On the other hand, Campari brand which account for just 1.8% of spirits volume, showed a positive 7% CARG over the past four years. We believe that the two brands will continue to perform well, helped also by an increase in the overall spirits consumption in Canada. Market shares will increase over time (**exhibit 51**) leading to a 10Y Revenues CARG of almost 5%.

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	5.10%	5.35%	5.62%	5.90%	6.07%	6.25%	6.43%	6.56%	6.69%	6.83%	6.83%
Revenues € mn	58	61	67	73	78	84	87	92	96	101	102

**Exhibit 51: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation

**Italy** – Campari is leader in the Italian Spirits market with 21% market shares in volume (**exhibit 52**).

The two leading brands are Campari and Aperol which together account for 73% of Campari Spirits volume in Italy. An extent of usage occasions<sup>6</sup> helped Aperol to deliver constant growth during the past few years. The same for Campari brand which continued to moderately grow. Those brands are constantly supported by digital marketing campaigns. Last summer, Campari launched "Aperol together" with the aim of increasing the social aspect of the brand. In addition, the campaign was supported by numerous spontaneous beach parties in honour of Aperol Spritz.

In 2018, Campari secured the historical "Camparino" premium bar located in the famous Galleria Vittorio Emanuele II, Milan, in order to increase its local and international visibility. Finally, happy hour has always been an Italian tradition, however data shows that the trend is increasing. Excluding, non-

<sup>6</sup> Source: Campari Investor Presentation 2018

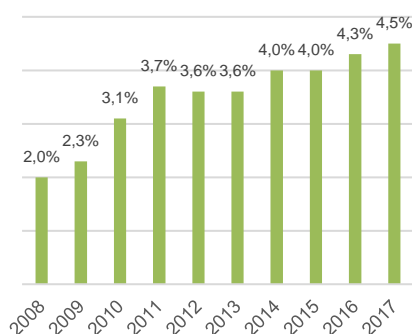


alcoholic beverages Spirits is still the most popular (**exhibit 53**). We forecasted an increase in volume for both Campari and Aperol mostly driven by consumer taste. As a result, Campari will continue to dominate Italian spirits market (**exhibit 54**). Revenue from Italy will show a 10Y CARG of 3.3%.

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	21.1%	22.0%	23.1%	24.2%	25.3%	26.0%	26.7%	27.4%	28.0%	28.5%	28.5%
Revenues € mn	400	409	422	436	450	465	479	498	517	537	554

**Exhibit 54: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation



**Exhibit 55: Campari Historical Spirits Volume Market Shares Germany**

Source: Passport

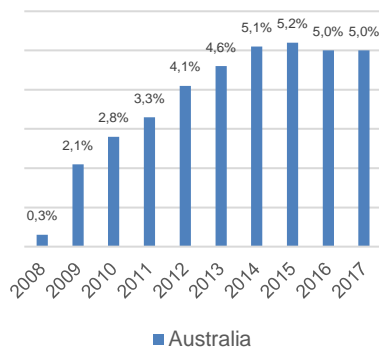
**Germany-** From 2008, Campari was able to increase its volume market shares from 2% to 4.5% (**exhibit 55**). However, in 2017, the company reported a decline in German revenue of 10% YoY. The negative result was mostly impacted by low margin sparkling wine. In addition, Campari brand contributed to the negative result with a weaker performance (-3% YoY in volume). On the other hand, Aperol which represents 42% of Campari total spirits volume in Germany performed very well with a double-digit volume increase of 11%. Finally, SKYY Vodka, after 15% increase in volume in FY16, remained stable during FY17.

In line with the plan to streamline non-core business, we believe that Campari will divest from low margin wine business and focus on Global Priorities Brands (ex. Aperol and SKYY Vodka) in order to increase German Market Shares.

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	4.5%	4.6%	4.7%	4.8%	4.8%	4.9%	5.0%	5.1%	5.2%	5.3%	5.3%
Revenues € mn	158	161	166	169	173	181	181	189	197	206	211

**Exhibit 56: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation



■ Australia

**Exhibit 57: Campari Historical Spirits Volume Market Shares Australia**

Source: Passport

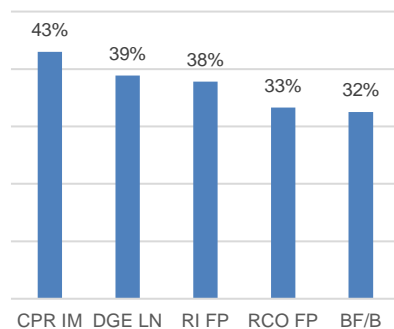
**Australia-** Campari market shares saw an accelerated growth between FY08-FY14; after that, they remained stable over 5% (**exhibit 57**). It is important to highlight that Australian Spirits market is relatively small compared with the other countries and RTDs account for 64% of Campari total volume in Australia. However, focusing on Campari Spirits core-business: both Campari brand and Aperol registered a positive volume growth of 19% and 20% YoY respectively. On the other hand, Wild Turkey which accounts for 86% of Campari Spirits volume in Australia declined by 1% YoY. The drop was primarily driven by a fall in sales of American Honey as well as a change in route-to-market distribution. We expect the brand to recover slowly over the next years.

Australia is considered a seeding market for Aperol; data shows that Australians like Aperol Spritz for two main reasons: it is a refreshing drink and is easy to make. Moreover, Campari will sponsor Australian Open Series 2018, event which will attract a lot of consumers.

	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Market Shares	5,0%	5,0%	5,0%	5,0%	5,1%	5,2%	5,3%	5,4%	5,5%	5,6%	5,6%
Revenues € mn	87	84	88	92	96	100	101	102	106	110	109

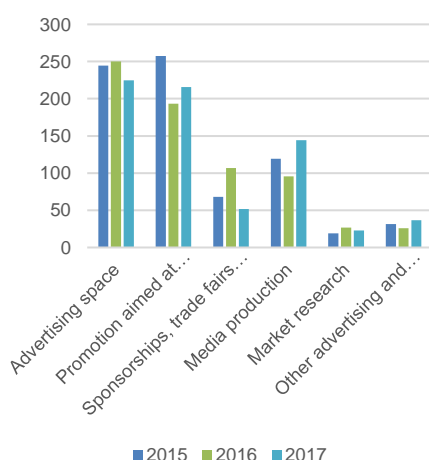
**Exhibit 58: Campari Volume Market Shares and Revenue Forecast**

Source: Analyst Estimation



**Exhibit 59: COGS as % of Sale 2017**

Source: Bloomberg



**Exhibit 60: Historical A&P costs € mn**

Source: Statista

## Operating Expenses

Operating Expenses include Cost of Goods sold, Advertising and Promotion and General Administrative expenses. With the assumption that raw materials are priced at local currency, we calculated Cost of Goods sold with the exchange parity condition.

We obtained 41% COGS over sales which is a bit lower compared with FY13-FY15 but in line with competitors' COGS (**exhibit 59**).

In a market where the first driver is consumer personal taste (**exhibit 32**), Advertising and Promotion becomes a critical factor.

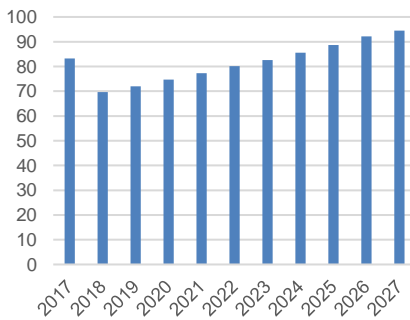
Campari's A&P includes Advertising Space, followed by Promotion aimed at consumers and customers, media production, sponsorship, trade fairs and events and market research (**exhibit 60**). During the last few years, we saw a great increment in Media Production. We increased A&P margins from 18.9% to 21%. According with our revenues forecast, Campari will invest in aggressive marketing campaign to increase Global Priorities volume and support SKYY Vodka recovery.

Finally, we considered G&A expenses as constant percentage of sales, in line with the company historical trend and competitors' trends.

## Capital Expenditure and Net Working Capital

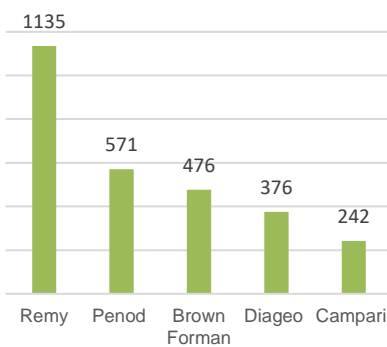
Capital Expenditure includes Property Plant and Equipment but also Intangible Assets with finite life. Campari PPE Capex is mostly accrued through bottling facilities, development of new warehouses or renewal of machinery and equipment in distilleries. While regarding Intangible assets, Campari invests mainly in projects which aim to upgrade and integrate the Group's IT systems<sup>7</sup>. Capex expenditure tend to be low for spirits producers: on average, we found a range between 2-4% as percentage of sales.

<sup>7</sup> Source: Company Financial Report 2017



**Exhibit 61: CAPEX Forecast in EUR mn**

Source: Analyst Estimation



**Exhibit 62: Inventory days as of FY17**

Source: Companies Reports

Comparable	D / EV
DGE LN Equity	11.6%
RI FP Equity	21.0%
RCO FP Equity	6.3%
BF/B US Equity	7.0%
<b>Median</b>	<b>9.3%</b>

**Exhibit 63: D/EV Comparable**

Source: Bloomberg

Risk free asset	0.53%
Beta	0.93
Risk premium	5.1%
<b>Cost of equity</b>	<b>5.2%</b>

**Exhibit 64: Campari Cost of Equity**

Source: Analyst Estimation

Campari's historical CAPEX as percentage of sales has been 4%. Therefore, we decided to leave the percentage unchanged (**exhibit 61**).

We assumed that the company will require additional investments to generate organic sales growth. In 2017, Campari had a PPE position of €456 million and an Intangible assets position of €29 million; according with our assumption, PPE and Intangible assets will reach the value of €602 million and €38 million respectively by the end of 2027.

Campari's net Working Capital depends primarily on its inventory level. Generally, distillers such as cognac and whisky tend to increase it since they must be aged. Campari has a relatively low Inventories days compared to its peers (**exhibit 62**). The reason is that the company has a higher amount of bitters and vodka instead of distillers.

We calculated Campari's working capital by subtracting current operating liabilities to current operating asset. In 2017, the company registered a very low positive change in working capital of €8 million, while we expect this amount to reach €18 million by the end of 2027.

## WACC ASSUMPTIONS

### Capital Structure

Capital structure is a crucial element to calculate our WACC. Today, Campari has a debt to enterprise value of 10.1% which is slightly higher than competitors' median 9.3% (**exhibit 63**). For that reason, we chose to keep the ratio unchanged.

### Cost of Equity

The cost of Equity has been calculated by using the CAPM model (**exhibit 64**). First of all, we regressed Campari returns on the European STOXX 600 Index using daily, weekly and monthly data. We obtained similar betas, however, daily returns' 95% confidence interval was much narrower than the others (**exhibit 65**). For that reason, we used our daily data and after the shrinking adjustment, we obtained a beta of 0.93.

The best proxy for the risk-free rate is the 10 years German Treasury bill, which today is 0.53%. By contrast, considering the fact that global markets are strongly correlated, we used a market spread of 5.1% which is commonly applied in the financial literature.

Basis	Beta	95% Low	95% Up
Daily	0.89	0.82	0.95
Weekly	0.79	0.65	0.93
Monthly	0.75	0.36	1.14

**Exhibit 65: Beta Analysis***Source: Analyst Estimation*

	Net D/EBITDA	Net D / Common Equity
CPR IM Equity	1.8x	42.4x
RCO FP Equity	1.7x	29.9x
DGE LN Equity	2.3x	64.6x
RI FP Equity	2.6x	56.7x
BF/B US Equity	1.5x	143.6x

**Exhibit 66: Credit Analysis***Source: Bloomberg*

	Maturity	True Yield	ASW Spread
CPR IM Equity	2024	1.3%	79
DGE LN Equity	2026	1.0%	25
RI FP Equity	2026	1.1%	35
RCO FP Equity	2025	1.2%	59
BF/B US Equity	2026	1.1%	31
Median			35 bp

**Exhibit 67: Bond Analysis***Source: Bloomberg*

## Cost of Debt

Campari's net financial position is primarily composed by a larger portion of medium-long-term debt compared to the short-term portion. The medium /long term items include bonds, loans, bank debts and other financial receivables and payables.

The company is not rated, therefore, in order to calculate its cost of debt, we decided to compare the its longest maturity bond yield with its peers. We need to consider also that every comparable has a different risk profile according with its level of debt (**exhibit 66**). As we can see by **exhibit 67**, Campari's longest bond has the highest ASW spread compared with its peers' longest bonds. Finally, we decided to use the average ASW spread (including Campari) and add it up to the 10Y Euribor yield which today is 0.62%. We obtained a very low cost of debt of 1% which reflect the low interest rates environment but also the low risk profile of the industry.

## DCF

Using the Discount Cash flow model, we estimated the Enterprise Value for the end of 2018. Started from the NOPLAT, we added back depreciation and we subtracted the Change in Working Capital and CAPEX. Then, we added up any decrease in non-content assets and increase in non-content liabilities. In that way we obtained the future projection for Campari's cash flows.

Two items, Provisions for risk and charges and Investment property, have not been included in the cash flows projection. We considered them at fair value at the end of 2018. We decided to use 1.65% terminal growth which reflects the weighted average expected Real GDP growth of the main countries where Campari operates.

Finally, we obtained a terminal value of € 11.134 million which discounted represents 79% of the company's Enterprise Value at the end of 2018.

After using all inputs and assumptions previously mentioned, we obtain an Enterprise Value of € 9.307 million.

Again, adding back investment property and subtracting net debt and provisions for risk and charges, Campari Equity is €8,361 at the end of 2018. With 1,161.6 million shares outstanding, we obtained a target price of €7.20 and a dividend yield of 0.9%. Comparing with the actual stock price of €6.29, we obtained a total shareholders return of 14.99%.

## Sensitivity Analysis

Campari target price can substantially decrease or increase, if the inputs behind it change. In particular, we saw that the terminal value represents a great portion of Campari's enterprise value (77%). Therefore, we retain appropriate to evaluate how the target price can fluctuate with different terminal growths. If Campari intensifies its operations in Asia-Pacific, this will lead to a higher terminal growth.

Moreover, Campari has a current Debt to Equity Ratio of 10.1%. However, we know that the company is continuously expanding through acquisitions and it may require raising extra funds. In addition, when looking at peer's debt to enterprise value (**exhibit 63**), we saw two outliers: Pernod Ricard with 21% ratio and Remy Cointreau with 6.1% ratio.

Finally, we developed a sensitivity analysis which measure the impact on the share price of a higher level of debt together with a change in the terminal growth. As we can see, a 2% growth with a lower Debt to Enterprise ratio would boost Campari share price to €8.22.

		Terminal Growth			
		1.65%	1.8%	1.9%	2%
D/EV	6.3%	7.49	7.79	8	8.22
	10.1%	7.2	7.49	7.69	7.9
	15.0%	6.82	7.09	7.28	7.49
	21.0%	6.36	6.61	6.79	6.98

**Exhibit 68: Sensitivity Analysis**

Source: Analyst estimation

## Scenario analysis

Previously, we analysed six markets and their respective key brands. We forecasted a Campari's overall positive performance, taking into account a strong effort to promote its brands and develop new flavoured Spirits. However, some risks are involved. As downside risks, we consider the possibility that SKYY Vodka recovery takes longer than expected, impacting US core market, Brazil and Australia. Then, there is the also the possibility that Campari won't be able to maintain its Spirits Market Shares in Germany, negatively impacted by unfavourable trends. Finally, if Campari plans to expand its operations, it maybe need to increase its CAPEX. The Worst scenario led to a price of €5.9 per shares. As **exhibit 66** shows, Revenue's grow will be much lower than expected.

mn €	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	1816	1847	1890	1921	1947	1976	1991	2017	2047	2078	2128
EBITDA	438	394	418	437	453	469	481	496	509	589	603
CAPEX	83	173	177	180	182	185	186	189	192	194	199

#### Exhibit 69: Bad Scenario Analysis

Source: Analyst estimation

Finally, as upward scenario, we see the possibility of an accelerated growth in Italy and in Global Priorities Portfolio. In addition, considering Campari external growth, we also believe that operating synergies may arise. This would lead to an increase in Gross Margins. In that case, the resultant price per share would be €7.9.

mn €	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Revenue	1816	1870	1948	2040	2133	2230	2319	2425	2539	2661	2730
EBITDA	438	410	429	451	471	492	512	536	561	617	634
Gross Margins	59.2%	59.7%	59.8%	59.9%	59.8%	59.8%	59.8%	59.8%	59.8%	59.8%	59.8%

#### Exhibit 70: Best Scenario Analysis

Source: Analyst estimation



# Appendix

## Consolidated Income Statement

Consolidated Profit & Loss Statement ( in EUR mn)	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
-Americas	794	822	860	905	949	993	1036	1084	1133	1186	1222
% increase	9%	4%	5%	5%	5%	5%	4%	5%	5%	5%	3%
-SEMEA	536	547	563	578	594	611	627	648	669	692	710
% increase	1%	2%	3%	3%	3%	3%	3%	3%	3%	3%	3%
-NCEE	361	368	375	381	386	396	398	408	419	429	437
% increase	5%	2%	2%	2%	2%	3%	1%	2%	3%	3%	2%
-Asia Pacific	124	122	126	131	136	141	143	145	149	154	155
% increase	1%	-2%	3%	4%	4%	4%	1%	1%	3%	3%	0%
<b>Total net Revenues</b>	<b>1.816</b>	<b>1860</b>	<b>1924</b>	<b>1995</b>	<b>2066</b>	<b>2141</b>	<b>2205</b>	<b>2285</b>	<b>2371</b>	<b>2461</b>	<b>2524</b>
% increase	4%	2%	3%	4%	4%	4%	3%	4%	4%	4%	3%
Cost of good sold	-741	-760	-785	-812	-841	-872	-898	-930	-965	-1002	-1027
% increase	0%	3%	3%	3%	4%	4%	3%	4%	4%	4%	2%
<b>Gross margin</b>	<b>1.075</b>	<b>1.099</b>	<b>1.139</b>	<b>1.183</b>	<b>1.224</b>	<b>1.269</b>	<b>1.307</b>	<b>1.355</b>	<b>1.405</b>	<b>1.459</b>	<b>1.497</b>
% of sales	59.2%	59.1%	59.2%	59.3%	59.3%	59.3%	59.3%	59.3%	59.3%	59.3%	59.3%
A&P costs	-343	-391	-404	-419	-434	-450	-463	-480	-498	-517	-530
G&A	-352	-360	-373	-387	-400	-415	-427	-443	-459	-477	-489
<b>Operating income before taxes Adjusted (EBIT)</b>	<b>381</b>	<b>349</b>	<b>362</b>	<b>377</b>	<b>390</b>	<b>404</b>	<b>416</b>	<b>432</b>	<b>448</b>	<b>465</b>	<b>478</b>
% increase	8%	-8%	4%	4%	3%	4%	3%	4%	4%	4%	3%
% Operating EBIT margins	21%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Operating taxes	13	-95	-99	-103	-106	-110	-113	-117	-121	-125	-129
% Revenues	-1%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
<b>Operating income aftex tax</b>	<b>408</b>	<b>253</b>	<b>263</b>	<b>275</b>	<b>284</b>	<b>294</b>	<b>304</b>	<b>315</b>	<b>327</b>	<b>340</b>	<b>349</b>
Other Comprehensive operating income	-208	0	0	0	0	0	0	0	0	0	0
<b>Net operating result After Tax (NOPAT)</b>	<b>200</b>	<b>253</b>	<b>263</b>	<b>275</b>	<b>284</b>	<b>294</b>	<b>304</b>	<b>315</b>	<b>327</b>	<b>340</b>	<b>349</b>
Net financial result before taxes	-68	-48,6	-49,7	-50,8	-51,8	-52,9	-54	-55,1	-56,2	-57,2	-58,1
Tax shield	-16	-11,7	-11,9	-12,2	-12,4	-12,7	-13	-13,2	-13,5	-13,7	-13,9
<b>Net financial result</b>	<b>-51</b>	<b>-37</b>	<b>-38</b>	<b>-39</b>	<b>-39</b>	<b>-40</b>	<b>-41</b>	<b>-42</b>	<b>-43</b>	<b>-43</b>	<b>-44</b>
<b>Net income</b>	<b>356</b>	<b>216</b>	<b>226</b>	<b>236</b>	<b>245</b>	<b>254</b>	<b>262</b>	<b>273</b>	<b>284</b>	<b>296</b>	<b>305</b>
<b>Comprehensive Result</b>	<b>149</b>	<b>216</b>	<b>226</b>	<b>236</b>	<b>245</b>	<b>254</b>	<b>262</b>	<b>273</b>	<b>284</b>	<b>296</b>	<b>305</b>
EPS	0.31	0.19	0.19	0.2	0.21	0.22	0.23	0.24	0.24	0.26	0.26
Depreciation and Ammortization	57	48	51	53	56	58	60	63	65	92	94
<b>EBITDA Adjusted</b>	<b>438</b>	<b>397</b>	<b>413</b>	<b>431</b>	<b>446</b>	<b>462</b>	<b>477</b>	<b>494</b>	<b>513</b>	<b>557</b>	<b>572</b>

## Consolidated Balance sheet

Consolidated Balance Sheet (in EUR mn)	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
<b>Operating assets</b>											
Operating cash	36	37	38	40	41	43	44	46	47	49	50
Trade receivables	318	325	336	349	361	374	386	399	414	430	441
Other receivables	32	29	30	32	33	34	35	36	37	39	40
Inventories	491	513	530	548	568	589	606	628	651	676	693
Net tangible fixed assets	431	456	476	496	516	537	558	580	602	602	602
Intangible assets with a finite life	33	29	30	32	33	34	36	37	38	38	38
Investment property	121	121	121	121	121	121	121	121	121	121	121
Goodwill	2303	2303	2303	2303	2303	2303	2303	2303	2303	2303	2303
Biological assets	1	1	1	1	1	1	1	1	1	1	1
Non-current assets for sale	48	0	0	0	0	0	0	0	0	0	0
Other non-current assets	9	9	9	9	9	9	9	9	9	9	9
Receivables for income taxes	28	19	20	21	22	22	23	24	25	26	26
<b>Total operating assets</b>	<b>3851</b>	<b>3843</b>	<b>3895</b>	<b>3951</b>	<b>4008</b>	<b>4068</b>	<b>4122</b>	<b>4184</b>	<b>4250</b>	<b>4295</b>	<b>4326</b>
% increase	-7%	0%	1%	1%	1%	1%	1%	2%	2%	1%	1%
<b>Operating liabilities</b>											
Payables to suppliers	226	231	239	247	256	266	273	283	294	305	313
Current payables to tax authorities	22	14	15	16	16	17	17	18	18	19	20
Deferred tax liabilities net	321	353	365	379	393	407	419	434	450	468	480
Other current liabilities	142	146	152	157	163	169	174	180	187	194	199
Provision for risks and charges	124	124	124	124	124	124	124	124	124	124	124
Defined benefits plans	34	20	11	7	4	2	1	1	0	0	0
<b>Total operating liabilities</b>	<b>868</b>	<b>889</b>	<b>906</b>	<b>929</b>	<b>955</b>	<b>984</b>	<b>1008</b>	<b>1040</b>	<b>1074</b>	<b>1110</b>	<b>1134</b>
% increase	-13%	2%	2%	3%	3%	3%	2%	3%	3%	3%	2%
<b>Net operating assets</b>	<b>2982</b>	<b>2954</b>	<b>2989</b>	<b>3021</b>	<b>3053</b>	<b>3084</b>	<b>3113</b>	<b>3144</b>	<b>3176</b>	<b>3185</b>	<b>3191</b>
% increase	-5%	-1%	1%	1%	1%	1%	1%	1%	1%	0%	0%
<b>Financial Assets</b>											
Other non-current financial assets	38	38	38	38	38	38	38	38	38	38	38
Short-term financial receivables	9	9	9	9	9	9	9	9	9	9	9
Excess of cash	478	427	437	448	458	469	480	490	501	510	520
<b>Total financial assets</b>	<b>525</b>	<b>474</b>	<b>484</b>	<b>495</b>	<b>505</b>	<b>516</b>	<b>527</b>	<b>537</b>	<b>548</b>	<b>557</b>	<b>567</b>
<b>Financial liabilities</b>											
Bonds	996	846	877	909	941	972	1004	1036	1068	1096	1123
Other non-current financial payables	494	494	494	494	494	494	494	494	494	494	494
Payables to banks	14	14	14	14	14	14	14	14	14	14	14
Other financial payables	62	62	62	62	62	62	62	62	62	62	62
<b>Total financial liabilities</b>	<b>1565</b>	<b>1415</b>	<b>1447</b>	<b>1478</b>	<b>1510</b>	<b>1542</b>	<b>1574</b>	<b>1606</b>	<b>1638</b>	<b>1666</b>	<b>1693</b>
% increase	-3%	-10%	2%	2%	2%	2%	2%	2%	2%	2%	2%
<b>Net financial liabilities</b>	<b>1040</b>	<b>941</b>	<b>962</b>	<b>984</b>	<b>1005</b>	<b>1026</b>	<b>1047</b>	<b>1068</b>	<b>1090</b>	<b>1108</b>	<b>1126</b>
<b>Common shareholder equity</b>	<b>1942</b>	<b>2012</b>	<b>2026</b>	<b>2038</b>	<b>2048</b>	<b>2058</b>	<b>2066</b>	<b>2076</b>	<b>2087</b>	<b>2077</b>	<b>2065</b>
ROIC	13.2%	8.6%	8.8%	9.1%	9.3%	9.5%	9.7%	10,00%	10.3%	10.7%	10.9%

## Statement of Change in Equity

Statement of Change in Equity ( in EUR mn)	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Beginning Balance	1900	1942	2012	2026	2038	2048	2058	2066	2076	2087	2077
<b>Transaction with Shareholders</b>											
Dividends	-52	-72,1	-103,9	-110,4	-115,2	-120	-125	-129,5	-134,3	-150,5	-155,9
Other transactions	-53,9	-74,57	-107,46	-114,26	-119,21	-124,19	-129,27	-133,97	-138,97	-155,69	-161,31
<b>Total transaction with Shareholders</b>	<b>-106</b>	<b>-147</b>	<b>-211</b>	<b>-225</b>	<b>-234</b>	<b>-244</b>	<b>-254</b>	<b>-263</b>	<b>-273</b>	<b>-306</b>	<b>-317</b>
<b>Comprehensive income</b>											
Net Income	356	216	226	236	245	254	262	273	284	296	305
Other comprehensive income	-208	0	0	0	0	0	0	0	0	0	0
<b>Total comprehensive income</b>	<b>149</b>	<b>216</b>	<b>226</b>	<b>236</b>	<b>245</b>	<b>254</b>	<b>262</b>	<b>273</b>	<b>284</b>	<b>296</b>	<b>305</b>
<b>Ending Balance</b>	<b>1942</b>	<b>2012</b>	<b>2026</b>	<b>2038</b>	<b>2048</b>	<b>2058</b>	<b>2066</b>	<b>2076</b>	<b>2087</b>	<b>2077</b>	<b>2065</b>

## Statement of Cash flow

Statment of Cash flows ( in EUR mn)	2017	E2018	E2019	E2020	E2021	E2022	E2023	E2024	E2025	E2026	E2027
Net operating income	408	253	263	275	284	294	304	315	327	340	349
Depreciation	57	48	51	53	56	58	60	63	65	92	94
<b>Investment in net working capital</b>											
Change in working cash	2	1	1	1	1	2	1	2	2	2	1
Trade receivables	11	8	11	13	12	13	11	14	15	16	11
Inventories	-45	22	17	19	20	21	18	22	24	25	17
Receivables for income taxes	16	-9	1	1	1	1	1	1	1	1	1
Other receivables	5	-2	1	1	1	1	1	1	1	1	1
Current biological assets	-7	0	0	0	0	0	0	0	0	0	0
Payables to suppliers	-37	6	7	8	9	9	8	10	11	11	8
Current payables to tax authorities	8	-7	0	1	1	1	0	1	1	1	0
Other current liabilities	3	5	5	6	6	6	5	6	7	7	5
<b>Total change in Net Working Capital</b>	<b>8</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>20</b>	<b>22</b>	<b>18</b>	<b>23</b>	<b>24</b>	<b>26</b>	<b>18</b>
<b>Gross Capex</b>											
Change in PP&P	-22	73	71	73	76	79	81	84	87	92	94
Change in Intangible assets	7	-4	1	1	1	1	1	1	1	0	0
<b>Total Change in Gross CAPEX</b>	<b>-15</b>	<b>70</b>	<b>72</b>	<b>75</b>	<b>77</b>	<b>80</b>	<b>83</b>	<b>86</b>	<b>89</b>	<b>92</b>	<b>94</b>
<b>Operating recurrent free cash flow</b>	<b>472</b>	<b>216</b>	<b>225</b>	<b>233</b>	<b>242</b>	<b>251</b>	<b>263</b>	<b>269</b>	<b>279</b>	<b>314</b>	<b>331</b>
<b>Non-current content assets</b>											
Other Comprehensive income	-208	0	0	0	0	0	0	0	0	0	0
Change Investment property	-2	0	0	0	0	0	0	0	0	0	0
Change Investments in affiliates and joint ventures	0	0	0	0	0	0	0	0	0	0	0
Change Goodwill	-188	0	0	0	0	0	0	0	0	0	0
Change Biological assets	-7	0	0	0	0	0	0	0	0	0	0
Change Non-current assets for sale	5	-48	0	0	0	0	0	0	0	0	0
Change Other Non-current assets	0	0	0	0	0	0	0	0	0	0	0
<b>Total investment in NCCA</b>	<b>-192</b>	<b>-48</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-current content liabilities</b>											
Change deferred tax liabilities net	-127	32	12	14	13	14	12	15	16	17	12
Change Provision risks and charges	30	0	0	0	0	0	0	0	0	0	0
Non-current liabilities held for sale	-5	0	0	0	0	0	0	0	0	0	0
Defined Benefit plans	-2	-15	-8	-5	-3	-2	-1	-1	0	0	0
<b>Total inestment in NCCL</b>	<b>-103</b>	<b>18</b>	<b>4</b>	<b>9</b>	<b>11</b>	<b>13</b>	<b>11</b>	<b>15</b>	<b>16</b>	<b>17</b>	<b>12</b>
<b>Free cash flow</b>	<b>353</b>	<b>282</b>	<b>228</b>	<b>242</b>	<b>253</b>	<b>263</b>	<b>274</b>	<b>284</b>	<b>295</b>	<b>331</b>	<b>343</b>
<b>Debt financing</b>											
Financial expense	68	49	50	51	52	53	54	55	56	57	58
Taxshield	-16	-12	-12	-12	-12	-13	-13	-13	-13	-14	-14
Change in net debt	196	98	-21	-21	-21	-21	-21	-21	-21	-19	-18
<b>Debt Financing cash flow</b>	<b>247</b>	<b>135</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>19</b>	<b>20</b>	<b>21</b>	<b>22</b>	<b>25</b>	<b>26</b>
<b>Equity financing cash flow</b>	<b>106</b>	<b>147</b>	<b>211</b>	<b>225</b>	<b>234</b>	<b>244</b>	<b>254</b>	<b>263</b>	<b>273</b>	<b>306</b>	<b>317</b>
<b>Financing flow</b>	<b>353</b>	<b>282</b>	<b>228</b>	<b>242</b>	<b>253</b>	<b>263</b>	<b>274</b>	<b>284</b>	<b>295</b>	<b>331</b>	<b>343</b>

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<b>Buy</b>	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
<b>Hold</b>	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
<b>Sell</b>	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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